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referred to above when I stated that I would show to be untrue your statement that "the sum total of money incomes received during a given period is exchanged against the sum total of goods produced and personal services rendered." People live as well as they can, but there is still an unconsumed increment and that is absorbed in land values. Build a subway or a sewer, a railroad or a factory, the eventual result is the same—a larger productivity and a larger return to the lord of the land. It is no answer to say that one owner sold to another, and the new owner paid the bigger price. The old owner collected his unearned increment, and the new owner charges the price on his investment account and gets a return on it. Maybe he also sells and the process is repeated. If he does not sell, he charges the increased value and gets the return himself. All the while, the more we increase in numbers and productivity, the more we dump into the bottomless pit known as economic rent. Before the employer *as such* and his workers have anything to divide, they must pay the non-productive landowner for the privilege of producing. The more he

gets, the less there is for them to divide on any basis.

I am painfully aware that I have not said anything in all this discussion that definitely assists in the solution of the particular problem you present. The subject involves psychological as well as other factors: status as well as cost of living. For the moment, and until great changes are made, both in the mechanism of industrial society and the psychology of the human beings involved, I can see no better way of adjustment than the way in which it is accomplished now—by agreement between groups if possible, and by fighting for it when we must; voting for it when we have sense enough to abolish the underlying causes of dissatisfaction.

If the results of your "relative rating" and the union scale coincide closely, there will not be any trouble at that moment. If you let us in on the making of it, it will lubricate the process. But my conclusion is that no purely mechanical scheme can have any but a limited success, according to surrounding circumstances, and, under some circumstances, no success at all.

The Requirements of a Policy of Wage Settlement

By HERBERT FEIS

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ALL fruitful discussion must be launched from a point of emphasis, and in the preceding article Dr. Mitchell seems to me to have launched the discussion of wage settlement from the proper one. That is the emphasis it places upon the fact that all incomes are governed in the main by the total volume of the product, and tend to vary with variations in this total; tending to rise when the volume of the product of industry increases, and tend-

ing to fall when the total volume of product decreases. With that emphasis, and the conclusion it suggests, that high real wages are possible only in a country in which the general level of productiveness is high, there can be no quarrel. Once beyond that point of emphasis, however, I am compelled to differ with many of the conclusions he reaches in regard to a proper basis of wage settlement.

The chief differences I wish to make

clear may be approached by distinguishing between two principles, often used in wage settlements, which Dr. Mitchell treats as part of each other and subjects to a critical analysis. The first is the principle of wage adjustment by reference to price movements, which has been widely adopted in recent years. The point of reference under this principle has usually been an index number of the cost of living, and the principle is familiarly known as "the cost of living" principle. The second is the "living wage" principle, which has been applied mainly by state minimum wage commissions to a limited number of classes of female industrial workers. In this principle, the point of reference has been to a calculation of the cost of a hypothetical minimum standard of life, which standard has been variously defined in statutes and by agencies of wage settlement.

EFFICACY OF THE "COST OF LIVING" PRINCIPLE

The first of these—the cost of living principle—has been applied in wage disputes involving all grades of workers. It is invoked in times of changing prices. In practice it has usually been interpreted so as to support such an adjustment of money wages as would make real wages the same as before the price movement. Dr. Mitchell declares in substance that this principle is both ineffective and unnecessary—save, perhaps, as its use may indirectly affect the growth of the industrial population. This opinion he bases upon an analysis of the distributive mechanism under conditions often assumed in economic reasoning—the conditions of perfectly effective competition throughout industry, and of perfectly stable economic motives and habits. In other words, the economic situation he analyses is in a

state of static equilibrium. His conclusion is that each factor of production is receiving and must receive that share of the total product which is determined once for all by that state of relative plenty or scarcity of the different factors which underlies the position of equilibrium. No change in the amount of any one form of income, for example, wages, is possible without an increase in the total product. Any general advance in money wages is, according to his analysis, bound to defeat itself, because it will inevitably give rise to a proportionate rise in prices, rent and profit incomes. Thus, to change wages as the cost of living changes, is an ineffective and useless process.

A QUESTION OF THE DISTRIBUTIVE PROCESS

It seems to me as if this general analysis of our distributive mechanism must be challenged even in periods of stable prices, and, doubly so, if it is applied to a period of changing prices. At no time do I believe that the distribution of the total product moves towards an inevitable or "natural" result. At all times, due to the non-realization of the conditions on which Dr. Mitchell bases his analysis, there is a considerable part of the product which may be secured by any of the claimants upon it: at times of changing prices this part of the product is unusually great. The proportions in which the total may be shared out are variable, not fixed. These proportions are not governed entirely by a simple set of fundamental facts. The outcome of the distributive process—by which phrase we mean the whole series of negotiations and transactions in which the income of groups and individuals are arranged—is constantly being affected by the movements of the human beings interested in it. The

distributive situation is never tending to a position of equilibrium, expressive merely of a simple set of basic facts. On the contrary that outcome is always being influenced by the pressure, perception and plans of those concerned in it.

Thus I would conclude that the proportions of the total received by any and all groups may be, and is, *to some extent* changed by the decisions of wage boards, the activities of trade unions, employers' associations and the like. In a period of changing prices, it may be repeated, the extent to which the outcome may be influenced by such activities is greater than usual.

This amounts to saying that there is a part of the total product which may be ultimately secured by any of the claimants in distribution, depending upon their organization, activity, and public opinion as expressed in wage decisions, statutes and the like. The self-assertion of the wage earners is directed at obtaining this part of the product. Any principle of wage settlement that strongly favors their claims and restricts the claims of others, tends to serve the same end. This result may be effected only indirectly, if at all. A multitude of means are used to bring it to pass. Among them are the principles which the wage earners seek to enforce as the basis of wage settlement. It is impossible in this discussion properly to explain and justify this view of the distributive process. The elements of it may be found in Ricardo. Various aspects of it are presented by Hobson, the Webbs and Clay.

"COST OF LIVING" PRINCIPLE AN INSTRUMENT IN PRICE MOVEMENT PERIODS

In the light of this analysis of distribution the significance of the "cost of living" principle is easily understood.

As many statistical studies stand to prove, in periods of changing prices, wage movements do not follow price movements in any steady or natural proportion. The whole field of distribution is in a flux. Profits may mount to fall very rapidly. The course of wage movement may be very decidedly influenced by the activity and organization of the wage earners and other industrial groups. Any group that remains merely passive will probably receive a smaller share of the product than it might otherwise. In periods of price increase, the wage earners have found the "cost of living" principle a useful instrument to justify their claims; in periods of falling prices, the employers have found it hardly less useful to justify theirs. For public opinion, and official and unofficial agencies of wage settlement have approved it because of the fact that it has produced results not too unjust or unreasonable, on the whole.

The conclusion to which all this tends may be briefly stated. It is that in periods of price movements, due to the fact that the consequences of activity may be unusually real, there will be an unusual outbreak of movements designed to alter wage-rates. Therefore any policy of wage settlement must contain some principle for adjusting wages with reference to price movements. Whether the "cost of living" principle is the most satisfactory one possible, I will not attempt to discuss. Perhaps an index of change of the prices of all commodities produced within the country, rather than an index made up entirely of the prices of the important consumption goods, would be more in accord with fundamental economic relationships (or a compromise between the two).

It may be argued against this view that the price changes are themselves caused by the wage adjustments, and

that if no wage adjustments were made price changes would not take place. But that argument overlooks the plain fact that very many different influences may initiate price changes, chief among which are variations in the total volume of the product and monetary factors. Many price changes occur independently of wage changes. Unless some way is found to nullify the effect of these outside influences upon prices, price movements such as have constantly in the past evoked unusual organized activity will continue to occur; and this situation will have to be recognized by the use of some principle which adjusts wages in accordance with prices.

LIMITED APPLICATION OF "LIVING WAGE" PRINCIPLE

The other principle of wage adjustment that was made distinct from that of the "cost of living" principle can be more briefly dealt with. It is the "living wage" principle. By its very nature it must be but one element in a larger policy of wage settlement. It can be used only as a basis of settlement for the lowest paid groups of workers. It has been a practical method of attempting to bring about such changes in production methods and in the distributive situation as would raise the wages of these groups. If it were embodied in a policy of wage settlement, it would give these groups strong representation in matters of distribution. Its ultimate success would depend in a decisive measure upon the course of growth in numbers of those who are able to do only the simplest and most unskilled work. Combined with other social activities for education and protection of these workers, the enforcement of the minimum wage principle, it is hoped, would lead to a reduction in their proportionate numbers.

The principle has the support of a deep social conviction. Its object would be to improve the economic condition of the lower paid workers, by securing to them, in particular, the greatest possible share of that part of the total product which is indeterminate.

The two principles so far discussed would by no means form a workable or satisfactory policy of wage principles by themselves. They would have to be but parts of a more elaborate policy, which must meet difficulties not yet considered.

ADDITIONAL AIMS OF A SATISFACTORY WAGE SETTLEMENT POLICY

It would have still other results, chief among which I would put the following:

First, it would have to result in the gradual building up of an orderly scheme of relationship between the wages received by the different classes of workers in industry.

Second, it would have to contain provisions by which profit income (using the term to denote a mixed form of income, inclusive of interest) would be kept at a just level, so that the resulting distributive situation satisfies certain general ideas of industrial justice.

Third, it would have to be of such a character that any new forces of industrial change that may win public support could be worked out within its framework.

The first of these aims is at the basis of Dr. Mitchell's proposals of relative rating. The result sought is that brought out by Dr. Mitchell—the establishment of a stable relationship between the wages of different groups of workers, in order to prevent those disturbances in the price level and in industry which result from attempts on the part of *particular* groups of wage

earners to improve their *relative* position in the industrial scale. At present such attempts are constantly made and frequently result in extensive wage movements and many industrial conflicts.

POSSIBILITY OF AN ORDERLY SCHEME OF WAGE RELATIONSHIP

There is no certainty that any such scheme of wage relationship can be established. Its success could be assured only by consent, which in turn would be derived from satisfaction with the results of the policy of wage settlement taken as a whole. It would depend upon acceptance by the wage earners of the ethical doctrine that the interests of them all stands above the interest of any particular group or groups. It may even be said that a spirit of class consciousness would have to supersede the present spirit of group consciousness before any such scheme could be maintained. For unless the strongest groups of workmen—skilled men in essential industries—refrain to use their strength to the utmost at all times in their own behalf, any scheme of wage relationship would be in constant danger of destruction.

The chief difficulty to be met in the formulation of any ordered scheme of wage relationship, would be to fix the relative reward for different kinds of work. As Dr. Mitchell points out, any such scheme would have to be accurate enough to possess the power “of attracting and holding workers in the proportions in which they are needed in various occupations.” It would, therefore, necessitate an analysis, on the one hand, of the character of each occupation and the qualities demanded by it, and, on the other hand, of the influences governing the movements of wage earners into different occupations.

A starting point for such analysis would be the existing “differentials” between the wages paid in different occupations at the present time. The scheme would have to permit, however, of the revision of these existing differentials after a study of the pertinent influences (chiefly, as has been said, the character of the various jobs and the capacities and preferences of the wage earners). If Dr. Mitchell’s analysis of distribution were so, it could be said that existing differentials were necessarily correct, because of underlying economic facts and they could therefore be made permanent. But he himself rejects this conclusion. And his suggestions in regard to the methods that might be used in determining sound and satisfactory differentials (“relative rating” in his terms) are valuable.

FURTHER CONSIDERATIONS IN SCHEME OF WAGE RELATIONSHIP

In attempting to establish an ordered scheme of wage relationship, two further considerations would have to be reckoned with. First, employers and wage earners would have to be left free to enter into agreements which depart from the general scheme, as long as such agreements are reached by the mutual consent of those directly concerned. For no plan of “relative rating” could possibly be so accurate as to secure to employers the amount of labor of different kinds they required under all circumstances, or so accurate as to prevent wage earners from being sometimes thrown out of employment which they would rather hold at a lower wage. The scheme would have to permit all special arrangements reached by common consent. Indeed, and this is an important matter, the only occasions for applying it should be in settlement of serious industrial disputes.

Secondly, if any scheme of wage relationship is to be successfully established, the general policy of wage settlement will have to keep profits down to what is judged a fair level. For no group of wage earners will contentedly accept its relative position in the industrial scale, if inordinate profits are secured by the owners of industry. Here we touch close upon what has been said before. The maintenance of a scheme of wage relationship will depend upon the decision of particular groups of wage earners to forego the active use of their economic strength to get as large as possible a portion of that part of the product, which is indeterminate. This decision they will persist in only if the general policy of wage settlement assures the wage earners as a whole a great share of the indeterminate part of the product, as signified by the fact that profits do not stand at an unfair level.

NEED TO KEEP PROFITS DOWN TO A FAIR LEVEL

To assure that profits will be kept down to a fair level is the hardest task to be faced in the search for a policy of wage settlement, based on defined principles. One of the principles might be specifically addressed to that purpose. If such a principle is to be consistent with the maintenance of any scheme of wage relationship, it probably would have to take all industry within its scope: that is to say that if wages are adjusted with reference to profits, the point of reference would have to be the profit return throughout all industry. For it is likely that if wages in particular industries are adjusted with reference to profits in these particular industries, the scheme of relationship, of relative rating, would be disturbed. There may be a way in which such adjustments in particular industries might

be carried out without leading to a disturbance of relative rating, but it is difficult to discern. Conceivably, adjustments to profits in particular industries might be kept separate from all other adjustments, and made annually only, but any such plan would present many difficulties. Profit-sharing arrangements in particular industries, or even particular enterprises, could, of course, be entered into without disturbing the general scheme.

On the other hand, no principle of wage settlement which called for wage adjustments with reference to the profits return throughout all industry, could be adopted without calling for important changes in current business practices. For one thing, the enforcement of a standardized system of accounting (at least in representative firms) would probably be required. Only by some such means could an index of profits be secured.

It may be contended that the profits return in industry is not one of the pertinent factors to be considered in formulating a basis of wage settlement. For it may be argued that the forces of competition will keep profits down to the only level that can be called just—that determined by the facts underlying distribution. My dissent from this view follows from my disagreement with the theory of distribution which supports it. It is a simple matter of fact that all agencies of wage settlement in the past have had to give consideration to claims for wage revisions which were based upon the fact that profits in a particular industry were much higher or much lower than they could possibly be if the conditions of static equilibrium in distribution were fulfilled. Exactly the same sort of claims will arise in the future unless the principles adopted go beyond a passive trust in the power of competition to keep profits at a proper level.

NEED FOR ADAPTABILITY TO CHANGING INDUSTRIAL FORCES

Finally, there remains the fact that any principles that are adopted as a basis of wage settlement would have to be of such a kind that they could be modified to take account of changing industrial forces. They would have to be such, for example, as would be compatible with the possible extension of profit-sharing arrangements. Or, to take a further example, they would have to be compatible with a possible future growth of joint industrial councils in industry. They would have to be of such a character that they could be used in connection with a variety of relationships in industry between employers and employed,

and changes in those relationships.

At the risk of repetition I wish to end this short survey of the subject presented in Dr. Mitchell's paper, with the opinion that any policy of wage settlement will have to reckon with a large number of difficult requirements—which cannot be wholly reconciled with each other. No single principle such as that of "relative rating" will suffice to meet them all. The policy would have to be more complicated. It could remain in use only by virtue of a public belief that its results were more beneficial and just than any alternative. It could expect support above all from the growing belief that a continuation of industrial strife on an ever-growing scale is insupportable.

The Effort of the Worker to Improve His Own Condition is Indispensable

By HORACE B. DRURY

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IN the leading article of which this paper is a discussion, Dr. Mitchell calls into question the practicability of attempting by wage award, union pressure, or other means to bring the wages of workers in the various industries up to some "standard of living" which may have been set up as desirable. Unless the amount of goods produced is increased, he reasons, higher labor cost in any one industry or in any group of industries simply means higher money prices, a higher cost of living, and in the end other workers, if not the workers in the particular trade affected, will lose as much as is gained. If all wages go up, the cost of living will be proportionately increased and no workers will benefit. If the wages of only part of the workers are increased, then those workers may

benefit, but all that they gain will have been at the expense of other workers.

This main proposition which Dr. Mitchell has so squarely put before us goes to the very root of the whole question of wage fixing. The question as to whether wage advances are simply a matter of robbing Peter to pay Paul, or a means of really raising the general standard of living is fundamental. It is the view of the present writer that the article under discussion has shown the existence of limits of the most genuine character to what labor can hope to secure by the road of wage increases; limits that are, in fact, so important that the main hope of those who would aid labor must be turned to measures very different from simply holding up wage-rates. But though this is the central truth which ought